ANNUAL REPORT 1987/88

prince edward island lending authority

89-02749/

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ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1987-1988)

Established by an Act of the Provincial Legislature in June, 1969, the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

prince edward island
lending authority

A CROWN CORPORATION
EST. 1969

TEL: (902) 892-4247 - KENT PLACE - 134 KENT ST., P.O. BOX 1420, CHARLOTTETOWN, P.E.I., CANADA, C1A-7N1

LETTER OF TRANSMITTAL

July 12, 1988

The Honourable Gilbert R. Clements
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Honourable Sir:

It is our pleasure to submit as required by the Prince Edward Island Lending Authority Act the Annual Report for the Lending Authority for the fiscal year ended March 31, 1988.

Respectfully submitted,

Vice-Chairman

for Robert H. Minard
Chairman

CORPORATE DIRECTORY
AS OF MARCH 31, 1988

EXECUTIVE

Robert H. Minard
Chairman of the Board
Member-At-Large, Port Hill

Everett MacFarlane
Vice-Chairman
Tourism - Charlottetown

***William M. Jay**
Secretary-Treasurer and
General Manager

MEMBERS OF THE BOARD

Clayton Bulpitt
Roseneath
Agriculture

Daniel MacLean
Tyne Valley
Agriculture

Wayne Harris
Murray Harbour
Fisheries

William B. Hatton
R.R.#2, Morell
Agriculture

Ms. Peggy Coady
Charlottetown
Small Business

H. L. Palmer
General Manager
Land Development Corporation

Douglas Johnston
Deputy Minister
Department of Fisheries

Ms. Dale Dewar
Deputy Minister
Department of Agriculture

W. P. MacDougall, C.A.
Deputy Minister
Department of Finance

*Non Voting

CORPORATE PROFILE

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1987 - 1988)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.
- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — may be obtained for a three year period repayabe in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.
- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season.
- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.
- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities and for consolidation of existing debt. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Business for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.
- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million in the preceeding fiscal year.
- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

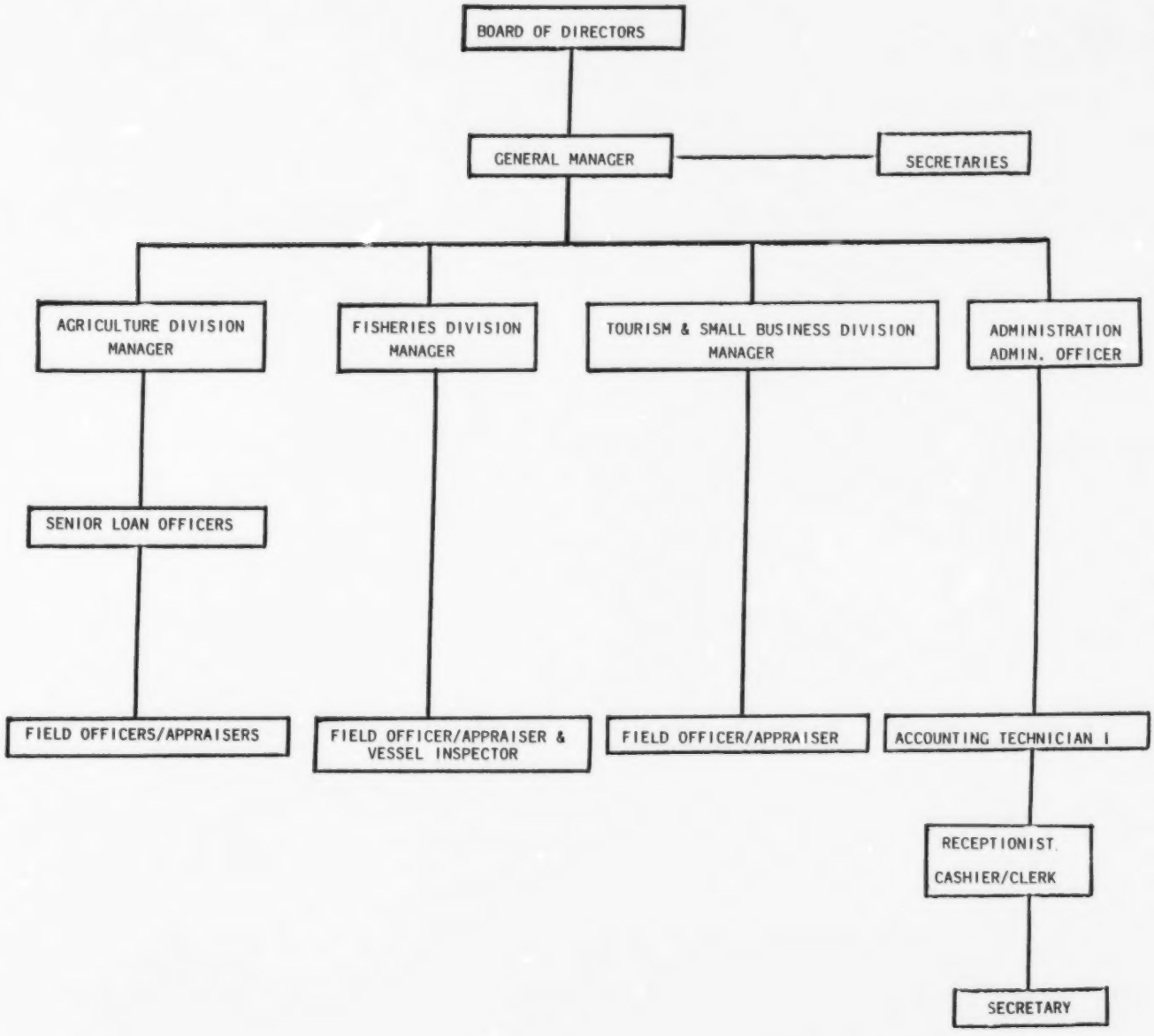
- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- interest rates on Capital Loans and Operating Credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

ORGANIZATIONAL CHART

PRINCE EDWARD ISLAND LENDING AUTHORITY



REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1987 - 1988)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fishermen, tourist operators and small business persons in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers and small business persons the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loan portfolios of the lending agencies of the Government of Prince Edward Island existing prior to April, 1970.

The Authority, now in its nineteenth year of operation, has been accepted by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

ANNUAL REPORT OF THE GENERAL MANAGER

I am once again honored to present this, my 19th, Annual report as General Manager.

The past fiscal year was a busy and productive year for all divisions of the Lending Authority although the total loans approved were slightly less than the previous fiscal year.

A statistical report on applications received in all divisions and disposition of those applications will be found on page 10 of this Annual Report. In general, the Authority received and evaluated 357 applications in all divisions for a total value of $31,004,140. This compares to the previous fiscal year when 380 applications totalling $31,860,418 were received. The only substantial reduction was in the Agricultural Division where applications received, while only 14 in number, less than the previous year, the total dollar value was 2.2 million dollars less. This decrease was not unexpected in that, at the present, there is no major expansion in any of the agricultural commodities. In fact, there is a marked reduction in the number of tobacco producers due to the Redux Program implemented by the Federal and Provincial Governments last year and a number of potato producers have either failed financially or have voluntarily phased out of production. Loan and credit offers approved totalled $20,489,905.

As in previous years, we will expand on our report by divisions as follows:

AGRICULTURAL DIVISION

As noted in my general comments, there has been a decrease in loans and credit approved in this division, the total being approximately 2.2 million dollars less than the previous fiscal year. Nevertheless, the total approved of $9,675,245. is a substantial investment in the industry. There is no question that there are many problems besetting the agricultural industry across Canada and, for that matter, in most developed countries throughout the world. It is generally agreed by Agricultural Economists that one of the major problems is overproduction. As a result, farm gate prices are depressed and farmers' gross incomes, while according to statistics is not decreasing, is being maintained principally through subsidies and other forms of Government assistance.

During the Fiscal year, several of our farm clients experienced financial difficulty with one bankruptcy being declared and several others voluntarily liquidating their assets. As a result, our bad debts have increased substantially this year, which was not unexpected and, with several more failures presently in process, it is likely that our bad debts over the next several years may be higher than what has been experienced in the past. This is unfortunate but must be accepted as part of the cost of operating a financial institution for high-risk borrowers.

The Authority continues to work with the Farm Debt Review Board in efforts to find ways and means to retain a number of financially troubled producers in business. It is evident that the Farm Debt Review Board is fulfilling a necessary mandate but, after one year of operation, they too, we believe, are coming to the realization that there are a number of producers who, because of various factors, simply cannot continue in production. those who cannot continue are being assisted in the most humane way possible to phase out of business with dignity.

We hold the opinion that agriculture not only in this province but throughout Canada and the United States is undergoing structural changes which over the next few years will see a much healthier and vibrant agricultural industry emerge. One that is well-managed and is producing for defined markets. Presently, the agricultural industry is perhaps the only industry that produces for a non-defined market and, as a result, suffers from overproduction, resulting in cash returns insufficient, in many cases, to service the debt structure of the producing farms.

Generally, our principal cash crop, potatoes, is in our opinion, a five-cent crop, and as such, capital debt of potato producers must be so structured that their debt can be serviced by this average price return.

As to the coming fiscal year, we see no major increases in loans and credit with much emphasis by our staff on "workouts" with existing clients who are experiencing financial difficulty.

FISHERIES DIVISION

Our Fisheries Division shows an increase in the amount of loans and credit extended with approximately 4.6 million dollars being dispersed to 109 fishermen. The loans approved included loans for the construction and/or purchase of 41 new inshore/near shore fishing vessels.

Our Fisheries Loan portfolio is in excellent standing with no vessels having been arrested or losses incurred during the year. The fishing industry is one of our most stable industries at the present time and, provided landings and prices remain stable, we foresee no difficulty in the immediate future in this portfolio.

TOURISM DIVISION

Loans and credit in this division totalled $4.7 million, down slightly from the previous fiscal year.

Fifty-four tourist operators took advantage of the Authority's programs during the past fiscal year with the heaviest investment of funds being in the Cavendish area.

The Authority has some concerns with the rapid growth in the Cavendish area and is experiencing some difficulty in rationalizing the growth of fast-food outlets, gift shops, and other attractions that are proliferating in this area and our concern is "when is the saturation point reached?" We have suggested to the Department of Tourism that, in concert with the Tourism Industry Association, this situation be given some consideration.

There were no foreclosures recorded in this division during the fiscal year. The portfolio is in excellent standing with only five loans in arrears of payments as at the end of the fiscal year.

SMALL BUSINESS DIVISION

The Small Business Division received only twelve applications during the fiscal year for a total of $1.5 million, approximately the same as the previous fiscal year.

We foresee little, if any, expansion in this division over the next few years. However, despite the small number of applications and the relatively small amount of money extended this division, nevertheless, is fulfilling its purpose and there are no plans at this time to phase it out.

There were no foreclosures and no losses experienced in this division during the fiscal year and the portfolio remains in excellent standing.

TO CONCLUDE OUR REPORT, during the past fiscal year notwithstanding an ever-expanding loan portfolio and increasing operating costs, we were able to maintain our operations within our allotted budget.

During the past year, we experienced rapid changes in the external environment in which the Lending Authority must operate. There was the introduction of the Farm Debt Review Boards, Court Decisions handed down on several cases which materially affect our methods of operation, the proposed amendments to the Bankruptcy Act, and the proposed introduction of the Prince Edward Island Personal Property Security Act which, when implemented, will have far-reaching and dramatic changes in the manner in which the Lending Authority carries out its operations, particularly in the taking of security and the recovery of loans. All of these changes require constant and continuing staff training and heavy emphasis will be placed on this aspect during the forthcoming year.

Further, during the forthcoming year, the Lending Authority will be computerizing its operations in that its existing equipment is now obsolete and, further, it is simply no longer economical to continue a manual accounting system with a loan portfolio in excess of 50 million dollars. Our computerization will be in two phases. Phase One will be the computerization of our loan portfolios and our general ledger. This will comprise four terminals and we plan on having this aspect implemented by August of 1988.

Phase Two, which will be the implementation of a computerized evaluation system, including our participation in the farm financial statement system, will be implemented subsequently. We should point out that the farm financial statement system is a harmonization with other financial lenders across the country and, when implemented, will be of immense benefit not only to the Lending Authority but to the Island farm community.

In conclusion, I am pleased to advise that management and staff of the Authority continue to enjoy an excellent rapport with the Chairman and Members of the Board and the Minister Responsible, the Hon. Gilbert R. Clements, and also with the various departments and agencies, both of the Federal and Provincial Governments, and with the business community at large with whom it must co-operate.

Respectfully submitted,

William M. Jay
General Manager

STATISTICAL INFORMATION

APRIL 1, 1987 - MARCH 31, 1988

(with comparative figures for fiscal 1986/87)

		1986/87		1987/88	
Total Number of Applications Received					
Agriculture			168		149
Fisheries			111		125
Tourism			76		68
Small Business			25		15
			380		357
Total Dollar Value of Applications Received					
Agriculture			17,092,977		14,252,380
Fisheries			5,390,216		6,571,936
Tourism			6,994,200		8,108,949
Small Business			2,383,025		2,070,875
			31,860,418		31,004,140
Disposition of Applications					
Loan and Credit Offers Approved					
AGRICULTURE	Term Loans	73	3,564,990	52	2,159,625
	Operating Credit	48	8,249,112	55	7,515,620
		121	11,814,102	107	9,675,245
FISHERIES	Term Loans	85	1,861,188	95	2,462,245
	Operating Credit	7	1,624,250	14	2,133,615
		92	3,485,438	109	4,595,860
TOURISM	Term Loans	48	4,822,400	48	4,590,300
	Operating Credit	7	195,000	6	119,000
		55	5,017,400	54	4,709,300
SMALL BUSINESS	Term Loans	16	1,574,400	12	1,509,500
TOTAL APPROVED		284	21,891,340	282	20,489,905
Applications withdrawn or Declined		96	9,969,078	75	10,514,235
TOTAL		380	31,860,418	357	31,004,140

STATEMENT OF INTEREST EARNED - ALL DIVISIONS

FOR THE PERIOD APRIL 1, 1987 - MARCH 31, 1988

Agricultural Loans	2,266,656
Fisheries Loans	552,843
Tourist Loans	1,769,098
Small Business Loans	939,833
Working Capital Credit	593,797
	6,122,227

STATEMENT OF LOAN PORTFOLIOS ASSUMED

FOR THE PERIOD APRIL 1, 1987 - MARCH 31, 1988

Farm Establishment Board	
Balance March 31, 1987	446,482
Payments Received April 1, 1987 - March 31, 1988	94,556
Balance March 31, 1988	351,926

SCHEDULE OF LOANS APPROVED

APRIL 15/70—MARCH 31/88

YEAR ENDING	Agriculture Capital	Fisheries Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13	67	31	2	*156	269
	276,539	145,502	374,960	3,379	1,642,800	2,443,180
March 31/72	13	63	24	12	*131	243
	274,700	144,099	220,548	865,500	1,483,228	2,988,075
March 31/73	47	46	35	3	95	226
	669,564	185,239	901,927	51,145	1,272,435	3,080,310
March 31/74	46	94	20	4	87	251
	463,854	465,092	339,560	606,639	1,591,781	3,466,926
March 31/75	107	107	21	12	245	492
	906,246	365,051	529,189	278,950	2,554,176	4,633,612
March 31/76	44	54	14	12	135	259
	510,255	340,481	375,883	226,469	3,053,306	4,506,394
March 31/77	90	75	20	11	127	323
	905,663	295,978	954,247	619,107	3,782,268	6,557,263
March 31/78	107	69	15	10	93	294
	1,571,843	374,230	564,145	679,030	3,046,371	6,235,619
March 31/79	124	84	19	11	141	379
	1,655,196	910,515	1,119,950	830,067	4,875,293	9,391,021
March 31/80	176	103	27	16	104	426
	4,128,794	1,243,816	1,250,735	545,690	4,873,681	12,042,716
March 31/81	170	76	22	15	111	394
	5,215,462	865,635	1,701,220	900,296	6,691,154	15,364,767
March 31/82	133	102	17	11	71	334
	3,831,035	1,489,457	719,872	734,312	4,687,811	11,462,487
March 31/83	142	128	44	5	90	409
	5,812,452	1,834,025	2,366,520	203,375	7,593,698	17,810,070
March 31/84	145	98	47	46	104	440
	7,688,410	1,485,077	4,390,855	5,956,250	7,768,500	27,289,092
March 31/85	61	78	23	26	67	255
	2,348,829	1,735,672	3,331,050	2,495,845	5,583,535	15,494,932
March 31/86	63	85	34	22	52	256
	2,546,290	1,462,534	4,345,150	2,412,250	6,904,917	17,671,141
March 31/87	73	85	48	16	62	284
	3,564,290	1,861,188	4,822,400	1,574,400	10,068,362	21,891,340
March 31/88	52	95	48	12	75	282
	2,159,625	2,462,245	4,590,300	1,509,500	9,768,235	20,489,905
TOTAL	1,606	1,509	509	246	1,946	5,816
	44,529,747	17,656,836	32,898,511	20,492,204	87,241,551	202,818,849

STATEMENT OF LOAN FLOW

FOR THE PERIOD APRIL 1, 1987 - MARCH 31, 1988

AGRICULTURE CAPITAL LOANS		
Balance March 31, 1987		21,674,873
Payments Received April 1/87 - March 31/88	4,901,810	
Interest and Disbursements	3,611,262	
Balance March 31, 1988		20,384,325
FISHERIES CAPITAL LOANS		
Balance March 31, 1987		3,666,520
Payments Received April 1/87 - March 31/88	1,389,187	
Interest and Disbursements	2,619,400	
Balance March 31, 1988		4,896,733
TOURIST CAPITAL LOANS		
Balance March 31, 1987		13,504,587
Payments Received April 1/87 - March 31/88	4,076,089	
Interest and Disbursements	6,311,383	
Balance March 31, 1988		15,739,881
SMALL BUSINESS LOANS		
Balance March 31, 1987		8,338,812
Payments Received April 1/87 - March 31/88	2,332,236	
Interest and Disbursements	2,398,902	
Balance March 31, 1988		8,405,478
WORKING CAPITAL CREDIT - ALL DIVISIONS		
Balance March 31, 1987		3,391,089
Payments Received April 1/87 - March 31/88	8,104,852	
Interest and Disbursements	8,660,988	
Balance March 31, 1988		3,947,225

STATEMENT OF LOANS WRITTEN-OFF AND RECOVERIES

FOR THE PERIOD ENDING MARCH 31, 1988

LOANS WRITTEN-OFF

McCardle Bros. Middleton	$300,000
C. F. Willis Produce Ltd. O'Leary	256
George Steiger Murray River RR	26,623
Terry and Donald MacNeill Clyde River	192,634
Myron Dawson Albany RR	137,492
	$657,005

RECOVERIES

Edward Gallant North Rustico	$400
Byrne Road Farms Morell	200
George Steiger Murray River RR	53
	$653

LOANS APPROVED/CLASSIFIED BY DIVISION AND RANGE

YEAR ENDING MARCH 31, 1988

Range	Agriculture	Fisheries	Tourism	Small Business	Total
0 - 9,999	16	31	5	1	53
10,000 - 19,999	21	24	3	1	49
20,000 - 29,999	15	15	4		34
30,000 - 39,999	9	15	7		31
40,000 - 49,999	2	7	1		10
50,000 - 59,999	3	3	4	1	11
60,000 - 69,999	4	4	6	2	16
70,000 - 79,999	3	5	5	1	14
80,000 - 89,999	4	1	2	1	8
90,000 -99,999	3		7	1	11
100,000 - 199,999	17	1	5	1	24
200,000 - 299,999	4		1	2	7
300,000 - 399,999	1	1	1	1	4
400,000 - 499,999	2		2		4
500,000 - 599,999			1		1
OVER 600,000	3	2			5
	107	109	54	12	282

COMPARISON OF LOANS APPROVED TO LOANS WRITTEN-OFF

APRIL 15, 1970 - MARCH 31, 1988

Year Ending	Total Loans	Write-Offs	Percent of Total Loans	Recovery
March 31, 1971	2,443,180	—	—	—
March 31, 1972	2,988,075	172,698	5.78	—
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.08	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31,1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487	—	—	2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
March 31, 1985	15,494,931	234,593	1.50	22,408
March 31, 1986	17,671,141	395,958	2.24	1,242
March 31, 1987	21,891,340	136,351	0.06	500
March 31, 1988	20,489,905	657,005	3.20	653
TOTAL	202,818,849	2,360,194	1.16	261,274

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY

AS OF MARCH 31, 1988

ADMINISTRATION

William M. Jay, M.C.I., C.C.E.	—	General Manager
Eric G. Wood	—	Administration Officer

AGRICULTURAL DIVISION

Gerald F. Gahan, M.C.I.	—	Manager
Anne E. Bonnell, B.B.A., M.C.I.	—	Loans Officer II
George G. MacCabe, M.C.I.	—	Loans Officer II
Michael F. Bradley, Ag. Tech.	—	Field Officer/Appraisor
J. Kevin Curley, B. Comm., M.C.I.	—	Field Officer/Appraisor
Donald C. Aitken	—	Field Officer/Appraisor
Hugh C. Campbell	—	Field Officer/Appraisor

FISHERIES DIVISION

D. W. (Dan) Smith, M.C.I.	—	Manager
J. Kenneth MacDonald, M.C.I.	—	Field Officer/Appraisor and Vessel Inspector

TOURISM AND SMALL BUSINESS DIVISION

Eric R. MacNeill, M.C.I.	—	Manager
Gerald B. Soy	—	Field Officer/Appraisor

SUPPORT STAFF

Ms. Marlene Peters	—	Secretary to the General Manager
Ms. Nancy M. Lecky	—	Accounting Technician I
Mrs. Elizabeth Boswall	—	Secretary
Mrs. Eleanor Giraud	—	Cashier/Secretary
Mrs. Elva Myers	—	Secretary/Receptionist

CONSULTANTS TO MANAGEMENT

Consulting Engineer	—	Mr. Norman F. Stewart P. Eng., Be. (Civil), M.E.I.C.

AUDITORS

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

May 13, 1988

AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1988 and the statements of liability — Province of Prince Edward Island, interest income and expenses and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

PRINCE EDWARD ISLAND LENDING AUTHORITY

BALANCE SHEET AS AT MARCH 31, 1988

ASSETS

	1988 $	1987 $
CURRENT ASSETS		
Cash (note 2)	3,385,905	152,319
Short-term loans plus interest (Schedule A)	2,990,544	2,148,312
Recoverable expenditures from Department of Finance	-	547,770
Properties in inventory	-	54,569
Sundry deposits	800	800
	6,377,249	2,903,770
MORTGAGE LOANS PLUS INTEREST (Schedule B)	49,776,174	47,223,480
	56,153,423	50,127,250

LIABILITIES

CURRENT LIABILITIES		
Bank advances	-	200,000
Payable to Department of Finance (note 2)	2,342,710	-
Funds held on deposit	-	6,500
Sundry	191	-
	2,342,901	206,500
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 3)	53.810,522	49,920,750
	56,153,423	50,127,250

SIGNED ON BEHALF OF THE BOARD

Chairman

Secretary-Treasurer

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF LIABILITY—PROVINCE OF PRINCE EDWARD ISLAND

AS AT MARCH 31, 1988

		1988 $	1987 $
BALANCE—BEGINNING OF YEAR		49,920,750	45,712,.48
Add:	Advances from Province	9,649,753	8,419,796
	Interest on advances	6,434,968	5,861,740
	Bad debts recovered	653	-
		66,006,124	59,993,884
Deduct:	Payments made to Province	11,772,467	9,673,453
	Excess of interest expense over interest income	308,639	235,139
	Increase in provision for possible future losses on loans	114,496	164,542
		12,195,602	10,073,134
BALANCE—END OF YEAR		53,810,522	49,920,750

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF INTEREST INCOME AND EXPENSES

FOR THE YEAR ENDED MARCH 31, 1988

	1988 $	1987 $
INTEREST INCOME	6,183,104	5,808,169
INTEREST EXPENSE		
Bank	56,775	181,568
Province of P.E.I.	6,434,968	5,861,740
	6,491,743	6,043,308
EXCESS INTEREST EXPENSE FOR THE YEAR (note 4)	308,639	235,139

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF OPERATING FUNDS

FOR THE YEAR ENDED MARCH 31, 1988

	Budget (Note 5) Appropriation 1988 $	Actual 1988 $	Actual 1987 $
OPERATING GRANT—PROVINCE OF PRINCE EDWARD ISLAND	832,500	825,878	801,977
OPERATING EXPENSES			
Salaries and wage levies	634,200	636,785	611,734
Rent - Office and office equipment	98,450	94,187	91,758
- Automobiles	15,640	14,497	15,352
Travel and field call expenses	12,800	13,526	10,820
Telephone	17,470	13,792	15,910
Professional fees	9,100	9,100	7,400
Directors fees and expenses	14,000	17,063	18,145
Office supplies	12,110	12,019	11,677
Insurance	560	500	550
Legal and collection costs	5,800	4,810	10,183
Repairs and maintenance	1,250	399	372
Furniture and fixtures	1,000	980	1,000
Postage	4,900	4,900	3,984
Advertising	840	253	320
General expenses	2,720	2,201	2,294
Loan costs	1,660	866	478
	832,500	825,878	801,977
EXCESS OPERATING GRANT FOR THE YEAR	-	-	-

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST

AS AT MARCH 31, 1988

	Agriculture	Fisheries	Tourist	Small Business	Total 1988	Total 1987
	$	$	$	$	$	$
SCHEDULE A—SHORT-TERM LOANS						
Principal balances					3,947,225	3,391,089
Provision for possible future losses					956,681	1,242,777
					2,990,544	2,148,312
SCHEDULE B—MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority—						
Principal and interest balances	351,926	-	-	-	351,926	446,482
Accrued interest	9,409	-	-	-	9,409	12,326
	361,335	-	-	-	361,335	458,808
Provision for possible future losses	9,033	-	-	-	9,033	11,470
	352,302	-	-	-	352,302	447,338
Mortgage loans transacted by Lending Authority—						
Principal balances and interest due	20,384,325	4,896,733	15,739,881	8,405,478	49,426,417	47,184,792
Accrued interest	555,223	340,510	794,450	49,812	1,739,995	1,587,865
	20,939,548	5,237,243	16,534,331	8,455,290	51,166,412	48,772,657
Provision for possible future losses	986,869	130,931	413,358	211,382	1,742,540	1,996,515
	19,952,679	5,106,312	16,120,973	8,243,908	49,423,872	46,776,142
	20,304,981	5,106,312	16,120,973	8,243,908	49,776,174	47,223,480

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1988

1. ACCOUNTING POLICIES

Asset valuation

(i) Loans are stated at cost less a provision for possible future losses based on the loss experience of prior years and local economic conditions.

The corporation has been using a provision calculated at 2.5% on the year end balances of the loans.

The Authority has a policy to give consideration to possible future losses on loans arising as a result of changed economic conditions resulting in losses which would materially differ from those provided for under the normal provision calculated at 2.5%.

(ii) Fixed assets are expensed in the accounts of the Authority at the time they are acquired.

Interest income

The corporation does not record interest on those loans which are considered doubtful. Although interest is not recorded in the accounts, the amount is calculated for collection purposes and maintained in a separate account.

2. CASH

The cash balance at the end of the year consists of payments received on loans which were due to the Department of Finance but not transferred until after the year end date.

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1988

3. LIABILITY—PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by the following debentures issued by the Authority to the province at varying interest rates and redemption periods. The interest rate established on these debentures is determined by calculating the average of all loans made throughout the year.

	1988		1987	
%	Debenture Amount $	Term Remaining	Debenture Amount $	Term Remaining
11.75	9,183,969	1 year	9,587,313	2 years
12.25	7,104,164	2 years	7,362,614	3 years
16.75	5,821,892	14 years	5,929,929	15 years
13.25	4,479,310	8 years	4,786,766	9 years
14.50	-	-	3,278,901	1 year
12.75	2,616,881	7 years	2,841,866	8 years
10.38	724,611	9 years	772,200	10 years
10.25	709,774	11 years	744,048	12 years
10.25	562,025	10 years	593,629	11 years
10.50	566,944	11 years	593,892	12 years
10.00	412,346	10 years	435,867	11 years
11.00	280,128	11 years	293,031	12 years
10.00	199,885	5 years	229,653	6 years
10.25	110,814	6 years	123,761	7 years
10.38	86,373	4 years	103,142	5 years
10.25	41,372	1 year	78,891	2 years
11.00	90,472	11 years	94,639	12 years
10.25	61,107	5 years	70,138	6 years
11.00	26,334	1 year	50,059	2 years
10.50	21,486	1 year	40,936	2 years
10.00	-	-	25,560	1 year
11.00	28,983	6 years	32,283	7 years
10.25	-	-	17,438	1 year
11.00	9,739	1 year	18,505	2 years
10.50	3,597	6 years	4,013	7 years
10.00	6,823,992	3 years	7,076,968	4 years
10.75	8,160,003	4 years	8,419,796	5 years
10.25	9,649,753	5 years	-	-
Total of debentures	57,775,954		53,605,838	
Accounting adjustment for provision for losses on loans, FEB loans and other sundry items are not included	(3,965,432)		(3,685,088)	
	53,810,522		49,920,750	

The aggregate principal payment made on the debentures on March 31, 1988 was $5,479,638.

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1988

4. EXCESS INTEREST EXPENSE

The excess interest expense for the year is due in part to a reduction made in the year March 31, 1986 in the interest rate charged on those agriculture loans which carry a rate in excess of 14% for 5 years, 15% for 10 years, and 15½% for 20 years. The rate reduction decreased the interest income derived from loans without a corresponding decrease in interest expense which is paid to the Province on its debentures.

The excess interest expense is also due to paid out loans of customers where the corresponding debenture to the Province carrying higher than current interest rates remains in existence. In addition, the Authority's policy not to record interest income on non-performing loans causes excess interest expense.

5. BUDGET APPROPRIATION

The budget amounts were not audited.